

25 FEB 1975

MEMORANDUM FOR THE RECORD

SUBJECT : Cost-Back Methodology

REFERENCE: Multiple Adse Memo dtd 14 Feb 75 fr DDA, same subj

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1. The planned meeting, mentioned in paragraph 3 of reference, was held at 0930 hours, 24 February 1974, in the DDA Conference Room. It was chaired by [] and attended by the planning representatives of all DDA offices plus [], Office of the Comptroller.

2. [] reviewed the Director/DDA exchanges on the subject and recapped the results as follows:

a. Maintain the ADP reporting system;

b. Continue studying charging other government agencies for services rendered (initial work in this area indicates that if CIA begins charging and other departments and agencies reply in kind, we will be billed about \$7 for every dollar we charge);

* (c. Whatever costing systems are implemented, there will be no transfer of funds;

d. Action must proceed to identify services in Groups I, II, and III; however, the Director accepted the rationale of Group IV thereby exempting the Office of Logistics (OL), the Office of Finance, and the Office of Personnel from further action in the current exercise;

e. A Group V was added to list those services which would be counter-productive to cost back. (This requires no action on OL's part since our entire activity is exempt.)

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3. [] concluded by stating all offices must maintain their capability to cost back services in case it becomes necessary in the future. In this regard, resource packages must be validated and kept current. Mr. [] added that he personally felt costing back was not productive; however, if the Director comes under heavy budgetary pressures requiring substantial cuts, it may become a necessary exercise in order to determine the best place to make cuts.



Chief

Plans and Programs Staff, OL

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DD/A 75-0717

14 FEB 1975

MEMORANDUM FOR: Director of Communications
Director of Finance
Director of Joint Computer Support
Director of Logistics
Director of Medical Services
Director of Personnel
Director of Security
Director of Training

SUBJECT : Cost-Back Methodology

1. As you are all aware, the components of this Directorate have individually developed techniques for identifying services and costing them back to users. This task of developing a methodology for this purpose was levied by the Director's financial guidelines paper dated 23 August 1974. The Directorate response to this tasking requirement was forwarded to the Director on 3 January 1975. In that response, we identified four groups of services in terms of the potential value of applying costing methodology. These groups were:

Group I - Specific services for which examination of costs to users could lead to management decisions to either maintain, increase/decrease, or delete the service being provided, particularly where the cost of service may not be competitive with that available from other sources. Included in this group could be certain types of training courses, physical examinations, and possibly certain unclassified computer operations.

Group II - Activities which lend themselves to rather precise costing and to which the user can exercise some control over the extent to which he avails himself of the service. Computer service is an example of this group.

Group III - Major programs representing services which can be attributed to other governmental agencies for possible reimbursement. This could include Office of Communications support to the State Department and Office of Security support of national technical surveillance means.

Group IV - Directorate administrative overhead and core activities not subject to costing. This would include the Offices of Finance, Personnel and Logistics in their entirety, plus that portion of other components considered core costs.

2. Basically, we suggested to the Director the proposition that it would not be useful nor cost effective to develop an elaborate costing methodology for all DD/A services. In addition, we made the point that we would hope that any application of costing methodology would not involve an actual transfer of funds but would be rather a form of resource allocation.

3. The Director, in his response, noted that he felt that the first stage of our costing methodology would be the establishment of a data base which reflects how much our activities cost. I believe that you should have established such a data base as a part of your initial methodology development plus your budgetary resource packages. Mr. Colby also concurred in our thesis that a charge system for all activities was not cost effective. He asked, however, that we proceed to identify services in our Groups I, II and III for possible implementation. [redacted] will be calling a meeting with your plan staff chiefs in the near future to discuss methods for doing this. I would like to be advised by the end of this fiscal year of the services which you have identified against this requirement. Also, please identify those services where costing data is not useful for managerial decision making.

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4. The Director has also asked that we continue with our ADP resources charge as presently in use and that we keep under active investigation the possibility of charging other government agencies for those services which we provide.

/s/John E. Blake

John F. Blake
Deputy Director
for
Administration

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Executive Registry

75-4389

DD/A 74-4946

Noted by DCI
8/3/75

3 JAN 1975

MEMORANDUM FOR: Director of Central Intelligence

THROUGH : Comptroller

SUBJECT : Costing Methodology

1. Your financial guidelines for 1975 and 1976, dated 23 August 1974, tasked this Directorate with developing costing methodology for services provided in order to make users aware of the cost of such services. You also stipulated that we should not proceed with the implementation of this methodology at this time, nor were we to build a bureaucratic structure whose cost would far exceed its value.

2. Keeping in mind your caveats, each Office has identified its services, its customers, and its costs. You will recall that the Office of Joint Computer Support had already developed a system of paper charge allocation for the various types of services available from that Office. That system underwent a refinement in terms of fee schedule during the early days of FY 1975. The other Offices developed systems consistent with the types of services provided, based primarily on applying some pro rata share of budgeted amounts to production statistics which in most cases are currently being collected for internal unit productivity measurement or for activity reporting. For example, the Office of Security identified 37 specific services which could be charged to components. Estimated FY 1975 costs developed from this methodology would include \$480,000 for polygraphs, \$3,600,000 for field offices, and \$2,500,000 for investigations in support of national technical surveillance means. The Office of Communications on the other hand, identified six major programs containing charges which would be costed to components.

3. As we looked at these systems and analyzed them it became apparent that while production statistics are a useful tool to a unit manager in measuring efficiency, the arbitrary creation of a system to compute and apply costs would not in itself materially enhance the usefulness of the tool. Most of the functions performed in this Directorate represent those "core" activities which must be done by law or to keep the Agency functioning. Decisions as to the level of "core"

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activities are of necessity major policy considerations based on overall Agency posture. The detailed identification and distribution of core costs, below the DDA resource package level now maintained, would not in our opinion enhance the decision-making process and be of little, if any, value to the recipients of such services. Directorate overhead and Office direction and control likewise are basically related to "core" activities and should be treated as such. With this in mind, we propose the costing methodology for administrative services be categorized as follows:

Group I - Specific services for which examination of costs to users could lead to management decisions to either maintain, increase/decrease, or delete the service being provided, particularly where the cost of service may not be competitive with that available from other sources. Includable in this group could be certain types of training courses, physical examinations, and possibly certain unclassified computer operations.

Group II - Activities which lend themselves to rather precise costing and to which the user can exercise some control over the extent to which he avails himself of the service. Computer service is an example of this group.

Group III - Major programs representing services which can be attributed to other governmental agencies for possible reimbursement. This could include Office of Communications support to the State Department and Office of Security support of national technical surveillance means.

Group IV - Directorate administrative overhead and core activities not subject to costing. This would include the Offices of Finance, Personnel and Logistics in their entirety, plus that portion of other components considered core costs.

4. If it is deemed necessary to charge for Group IV services, I would prorate the cost of such services to each Directorate on the basis of percentage of Agency population or possibly percentage of appropriation.

And maybe a Group V where the process would not likely lead to management decisions, in which case...


And it led to no decisions

5. Within the Administrative Directorate there are two examples of costing-back which are worth citing -- one in the Office of Logistics' Printing Services Division and the other in the OL Supply Division. The experiences of these two divisions in costing raise questions as to its value as a management tool within this Directorate. In the case of Printing Services Division, data for costing purposes was collected from each operator on a job basis. The time devoted to accumulating, recording and tabulating this data was between two and two and one-half man years. The Supply Division experience was slightly different in nature. Nearly 60% of the 80,000 line items of supply ordered through Supply Division are for overseas shipment. The cost of transportation is roughly \$2.2 million. In the past the various Agency components were responsible for budgeting and accounting for shipping costs; recently the Office of Logistics assumed this function. The net result was a drastic reduction in the manpower needed to perform this duty -- OL estimates it needed one man day per month to aggregate the data and run the system.

Good

Agree

6. We presume that the costing methodology would not involve actual cost-back procedures and transfer of funds, but would be some form of source allocation on a factored charge basis. I believe we would have a totally unmanageable situation if the budgeted funds to support DD/A services were contained in the budgets of using components and defended by such components.


John F. Blake
Deputy Director
for
Administration

cc: Comptroller

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COMPT 75-0014

Director of Central Intelligence

The attached is responsive to your charge to the DDA to accelerate development of methods to identify the cost of DDA services furnished to Agency components. Implicit in this charge was the suggestion that there might be merit in requiring that components budget for or be charged for such services. Jack makes the point that most DDA functions represent support services necessary to keep the Agency functioning and that the level of such services bears little direct relationship to the level of operations of individual components.

Although Jack has not been very explicit, I think he is seeking approval in principle for the approach

[Redacted] Acting Comptroller 248 JAN 1975

outlined in Paragraphs 3 and 6. The discussion in the attached creates the clear impression that implementation of a charging system for DDA services would not be cost effective. I suggest the DDA be told to defer any further action on costing methodology or its application with the following exceptions:

- a. Reporting utilization of ADP services should continue as at present; and
- b. The examination and evaluation of the merits of charging other Government agencies for support services should be continued.

In addition, you might suggest that the DDA be prepared to discuss the costing/charge-back issue briefly when the Winter Conference is --

O/Compt/AG/[Redacted] slh (27 Jan 75) STAT

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COMPT 25-0017

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<p>Remarks: The attached is responsive to your charge to the DDA to accelerate development of methods to identify the cost of DDA services furnished to Agency components. Implicit in this charge was the suggestion that there might be merit in requiring that components budget for or be charged for such services. Jack makes the point that most DDA functions represent support services necessary to keep the Agency functioning and that the level of such services bears little direct relationship to the level of operations of individual components. Although Jack has not been very explicit, I think he is seeking approval in principle for the approach</p>			
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- a. Reporting utilization of ADP services should continue as at present, and
- b. The examination and evaluation of the merits of charging other Government agencies for support services should be continued.

In addition, you might suggest that the DDA be prepared to discuss the costing/charge-back issue briefly when the Winter Conference is rescheduled.

*But with attention to
identifying examples
of Groups I II + III
for possible implementation*